

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Mackinac County	County Mackinac
Fiscal Year End December 31, 2006	Opinion Date February 21, 2007	Date Audit Report Submitted to State July 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma	Zip 49788
		License Number 1101024989	

COUNTY OF MACKINAC, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2006

COUNTY OF MACKINAC, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER

CARL FRAZIER

COMMISSIONER

LAWRENCE LEVEILLE

COMMISSIONER

CALVIN MCPHEE

COMMISSIONER

DAWN NELSON

COMMISSIONER

MIKE J. PATRICK

ELECTED OFFICIALS

COUNTY TREASURER

JANE E. HAMPTON

COUNTY CLERK

MARY KAY TAMLYN

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DIVISION FOR CPA FIRMS

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OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
Of the Board of Commissioners
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Mackinac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Mackinac County Road Commission and the Mackinac County Housing Commission, which represent 89.3% and 96.6% of assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Road Commission and Housing Commission is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2007 on our consideration of the County of Mackinac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Mackinac's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual major and combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Mackinac. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

February 21, 2007

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

Mackinac County provides services such as General Government, Public Safety, Public Works, Judicial, Health & Welfare, and Tax Collection to its 11,000 residents.

In a condensed format, the table below shows the net assets of Mackinac County.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 8,007,697	\$ 9,364,784	\$ 5,934,684	\$ 5,572,176	\$ 13,942,381	\$ 14,936,960
Noncurrent Assets	<u>5,655,202</u>	<u>3,658,522</u>	<u>-</u>	<u>-</u>	<u>5,655,202</u>	<u>3,658,522</u>
Total Assets	<u>\$ 13,662,899</u>	<u>\$ 13,023,306</u>	<u>\$ 5,934,684</u>	<u>\$ 5,572,176</u>	<u>\$ 19,597,583</u>	<u>\$ 18,595,482</u>
Current Liabilities	\$ 2,393,185	\$ 3,407,676	\$ 268	\$ 4,752	\$ 2,393,453	\$ 3,412,428
Noncurrent Liabilities	<u>2,881,247</u>	<u>3,100,086</u>	<u>-</u>	<u>-</u>	<u>2,881,247</u>	<u>3,100,086</u>
Total Liabilities	<u>5,274,432</u>	<u>6,507,762</u>	<u>268</u>	<u>4,752</u>	<u>5,274,700</u>	<u>6,512,514</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	1,380,458	2,056,933	-	-	1,380,458	2,056,933
Restricted	2,567,980	1,720,252	412,730	388,973	2,980,710	2,109,225
Unrestricted (Deficit)	<u>4,440,029</u>	<u>2,738,359</u>	<u>5,521,686</u>	<u>5,178,451</u>	<u>9,961,715</u>	<u>7,916,810</u>
Total Net Assets	<u>\$ 8,388,467</u>	<u>\$ 6,515,544</u>	<u>\$ 5,934,416</u>	<u>\$ 5,567,424</u>	<u>\$ 14,322,883</u>	<u>\$ 12,082,968</u>

The current level of unrestricted net assets for our governmental activities stands at \$4,440,029, or about 62% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased by \$1,872,923. Net Assets of the business-type activities increased by \$366,992.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 1,010,870	\$ 1,057,756	\$ 441,208	\$ 468,381	\$ 1,452,078	\$ 1,526,137
Operating Grants and Contributions	1,597,972	1,717,621	-	-	1,597,972	1,717,621
Capital Grants and Contributions	740,000	-	-	-	740,000	-
General Revenues						
Property Taxes	5,339,361	5,000,659	-	-	5,339,361	5,000,659
Unrestricted Investment Earnings	196,506	113,379	174,375	107,993	370,881	221,372
Transfers In	129,809	94,294	(129,809)	(94,294)	-	-
Other	<u>59,793</u>	<u>104,237</u>	<u>-</u>	<u>-</u>	<u>59,793</u>	<u>104,237</u>
Total Revenues	<u>9,074,311</u>	<u>8,087,946</u>	<u>485,774</u>	<u>482,080</u>	<u>9,560,085</u>	<u>8,570,026</u>
Program Expenses						
Legislative	130,045	177,272	-	-	130,045	177,272
Judicial	1,073,832	1,053,641	-	-	1,073,832	1,053,641
General Government	2,079,570	2,013,860	-	-	2,079,570	2,013,860
Public Safety	2,043,513	1,958,320	-	-	2,043,513	1,958,320
Public Works	133,222	131,284	-	-	133,222	131,284
Health and Welfare	1,272,992	1,428,161	-	-	1,272,992	1,428,161
Interest Expense	130,227	133,979	-	-	130,227	133,979
Other	337,987	254,698	-	-	337,987	254,698
Tax Collection	-	-	95,925	144,941	95,925	144,941
Commissary	<u>-</u>	<u>-</u>	<u>22,857</u>	<u>16,197</u>	<u>22,857</u>	<u>16,197</u>
Total Expenses	<u>7,201,388</u>	<u>7,151,215</u>	<u>118,782</u>	<u>161,138</u>	<u>7,320,170</u>	<u>7,312,353</u>
Changes in Net Assets	1,872,923	936,731	366,992	320,942	2,239,915	1,257,673
Beginning Net Assets	<u>6,515,544</u>	<u>5,578,813</u>	<u>5,567,424</u>	<u>5,246,482</u>	<u>12,082,968</u>	<u>10,825,295</u>
Ending Net Assets	<u>\$ 8,388,467</u>	<u>\$ 6,515,544</u>	<u>\$ 5,934,416</u>	<u>\$ 5,567,424</u>	<u>\$ 14,322,883</u>	<u>\$ 12,082,968</u>

Governmental Activities

Revenues for governmental activities totaled \$9 million in 2006. Of this amount \$5.3 million was received for taxes. Expenses for the governmental activities totaled \$7.2 million for 2006. The two largest expenses were for General Government and Public Safety.

Business-Type Activities

The County has two business-type activities, the Delinquent Tax Revolving Fund, which purchases any delinquent real property taxes from local municipalities and the Commissary Fund, which is used to account for the concession operations in the county jail. During the year the Delinquent Tax Revolving Fund had a net income of \$354,322, the previous years' net income was \$321,498. The Commissary Fund had a net increase of \$12,670.

The County's Funds

Our analysis of the County's major funds begins on page 9 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2006 include the General Fund, Revenue Sharing Reserve, Hospital Millage, Hospital Debt Service Fund, and the Delinquent Tax Fund. Funds supported by special millages consist of the Hospital Millage Fund.

The General Fund supports most of the County's governmental services. The most costly are the police, courts, and law enforcement functions. The Revenue Sharing Reserve Fund accounts for tax monies set aside for revenue sharing that was discontinued by the State of Michigan in 2004. The Hospital Millage fund accounts for a special millage used to fund health services with the Mackinac Straits Hospital. The MSH/LTC Debt Fund is used to repay principal and interest on the Medical Facility Bond. The Delinquent Tax fund is supported by interest and fees from the collection of taxes.

General Fund Budgetary Highlights

The General Fund realized \$214,490 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$210,178 less than appropriated. Operating Transfers exceeded both anticipated revenue and expenditures amounts resulting in a positive net budget variance of \$470,993. In the General Fund \$37,821 of Fund Balance was anticipated to be used for the fiscal year budget; but there was actually an increase of \$433,172.

Actual revenues were over budget because of more tax revenues than budgeted amounting to \$235,758. Actual expenditures were under budget because of less spending than budgeted in the following departments: Planning Commission, Family Court, and Data Processing.

Over the course of the year, the County Board amended the General Fund budget to reflect adjustments in revenues that developed in the year. The major adjustments were in Taxes and Penalties, State, and Federal Grants. The budget was also amended to reflect adjustments in expenditures. The major adjustments to expenditures were to reflect decreases in the Administrator's Department and Marine Law Enforcement and increases to the Sheriff, County Jail, and Emergency Preparedness departments.

Other Funds

The 911 Programs, Child Care, Friend of the Court Fund and Community Corrections ended the year with a fund balance of ten percent or greater. All of this provides for stability, future flexibility, and a mechanism for setting aside funds for services and equipment replacement.

Capital Asset and Debt Administration

During the 2006 period, the County invested or acquired \$902,688 in capital assets that meet the dollar threshold of the reporting requirement. The 2006 new capital assets included major renovations to the airport including new infrastructure and hangers.

The County reduced its bond debt load by \$198,000 in principal payments, ending with a debt balance of \$2,870,000.

Economic Factors and Next Year's Budgets and Rates

The County is in a budget battle from year to year. The cap on the growth rate under the Headlee Amendment, the voter's reluctance to adjust or augment taxes for general operations, and the corresponding double digit growth rates in health and liability insurances have put significant limitations on budget flexibility. There are looming indications from the state that further cuts will occur in other state funded areas. This could put increased pressure on already tight budget projections. Mackinac County having the highest unemployment rate in the state also impacts the County's economic future. We are pleased to end the current year with healthy fund balances in all major funds, but are realistic in projecting revenue for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the County Clerk's Office at (906) 647-7300.

Basic Financial Statements

County of Mackinac, Michigan

Statement of Net Assets

December 31, 2006

	Primary Government			
	Governmental	Business-type		Component
	Activities	Activities	Totals	Units
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 4,417,933	\$ 5,037,728	\$ 9,455,661	\$ 1,229,052
Receivables:				
Accounts	143,780	5,964	149,744	57,567
Taxes	3,259,086	833,160	4,092,246	-
Leases	135,000	-	135,000	102,000
Interest	-	47,430	47,430	-
Prepaid Expenses	-	-	-	120,047
Due from Governmental Units	51,898	10,402	62,300	807,747
Inventories	-	-	-	868,413
Other Assets	-	-	-	100
Total Current Assets	<u>8,007,697</u>	<u>5,934,684</u>	<u>13,942,381</u>	<u>3,184,926</u>
Non-Current Assets:				
Leases Receivable	1,320,000	-	1,320,000	3,866,000
Capital Assets (Not Depreciated)	320,240	-	320,240	-
Capital Assets (Net of Accumulated Depreciation)	<u>4,014,962</u>	<u>-</u>	<u>4,014,962</u>	<u>30,299,168</u>
Total Noncurrent Assets	<u>5,655,202</u>	<u>-</u>	<u>5,655,202</u>	<u>34,165,168</u>
TOTAL ASSETS	<u><u>\$ 13,662,899</u></u>	<u><u>\$ 5,934,684</u></u>	<u><u>\$ 19,597,583</u></u>	<u><u>\$ 37,350,094</u></u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 42,871	\$ 268	\$ 43,139	\$ 106,055
Accrued Liabilities	51,484	-	51,484	70,184
Accrued Interest Payable	24,734	-	24,734	63,784
Advances from State	-	-	-	149,360
Deferred Revenue	2,032,796	-	2,032,796	878
Other Liabilities	-	-	-	61,750
Capital Leases	41,300	-	41,300	1,579
Installment Loans	-	-	-	75,740
Bonds Payable	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>182,000</u>
Total Current Liabilities	<u>2,393,185</u>	<u>268</u>	<u>2,393,453</u>	<u>711,330</u>
Noncurrent Liabilities:				
Vested Employee Benefits	167,803	-	167,803	98,740
Capital Leases	43,444	-	43,444	1,515
Installment Loans	-	-	-	701,421
Bonds Payable	<u>2,670,000</u>	<u>-</u>	<u>2,670,000</u>	<u>5,446,000</u>
Total Noncurrent Liabilities	<u>2,881,247</u>	<u>-</u>	<u>2,881,247</u>	<u>6,247,676</u>
TOTAL LIABILITIES	<u>5,274,432</u>	<u>268</u>	<u>5,274,700</u>	<u>6,959,006</u>
NET ASSETS:				
Invested in Capital Assets (net of related debt)	1,380,458	-	1,380,458	27,858,913
Restricted	2,567,980	412,730	2,980,710	815,259
Unrestricted	<u>4,440,029</u>	<u>5,521,686</u>	<u>9,961,715</u>	<u>1,716,916</u>
TOTAL NET ASSETS	<u><u>\$ 8,388,467</u></u>	<u><u>\$ 5,934,416</u></u>	<u><u>\$ 14,322,883</u></u>	<u><u>\$ 30,391,088</u></u>

County of Mackinac, Michigan

Statement of Activities For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 130,045	\$ -	\$ -	\$ -	\$ (130,045)	\$ -	\$ (130,045)	\$ -
Judicial	1,073,832	454,459	470,029	-	(149,344)	-	(149,344)	-
General Government	2,079,570	242,315	588,660	740,000	(508,595)	-	(508,595)	-
Public Safety	2,043,513	288,915	380,264	-	(1,374,334)	-	(1,374,334)	-
Public Works	133,222	-	-	-	(133,222)	-	(133,222)	-
Health & Welfare	1,272,992	25,181	159,019	-	(1,088,792)	-	(1,088,792)	-
Interest Expense	130,227	-	-	-	(130,227)	-	(130,227)	-
Other	337,987	-	-	-	(337,987)	-	(337,987)	-
Total Governmental Activities	7,201,388	1,010,870	1,597,972	740,000	(3,852,546)	-	(3,852,546)	-
Business-type activities:								
Sheriff Commissary	22,857	35,527	-	-	-	12,670	12,670	-
Tax Collection	95,925	405,681	-	-	-	309,756	309,756	-
Total Business-type Activities	118,782	441,208	-	-	-	322,426	322,426	-
Total Primary Government	\$ 7,320,170	\$ 1,452,078	\$ 1,597,972	\$ 740,000	(3,852,546)	322,426	(3,530,120)	-
Component Units:								
Road Commission	\$ 3,768,545	\$ 305,707	\$ 4,654,341	\$ -				1,191,503
Board of Public Works	192,781	-	192,771	-				(10)
Housing Commission	349,533	73,795	106,730	92,113				(76,895)
Economic Development	2,464	650	-	-				(1,814)
Total Component Units	4,313,323	380,152	4,953,842	92,113				1,112,784
Total	\$ 11,633,493	\$ 1,832,230	\$ 6,551,814	\$ 832,113				
General Revenues and Transfers:								
Taxes					5,339,361	-	5,339,361	-
Investment Earnings (Loss)					196,506	174,375	370,881	48,793
Local Sources					-	-	-	102,214
Transfers					129,809	(129,809)	-	-
Sale of Fixed Assets (Loss)					-	-	-	(78)
Other					59,793	-	59,793	92,874
Total General Revenues and Transfers					5,725,469	44,566	5,770,035	243,803
Changes in Net Assets					1,872,923	366,992	2,239,915	1,356,587
Net Assets - Beginning					6,515,544	5,567,424	12,082,968	29,034,501
Net Assets - Ending					\$ 8,388,467	\$ 5,934,416	\$ 14,322,883	\$ 30,391,088

See accompanying notes to financial statements.

County of Mackinac, Michigan

Balance Sheet Governmental Funds December 31, 2006

	General	Revenue Sharing Reserve	Hospital Millage	Mackinac Straits Hospital	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 2,131,842	\$ 1,542,481	\$ 1,898	\$ -	\$ 741,712	\$ 4,417,933
Due from Other Funds	51,682	-	-	-	-	51,682
Receivables:						
Accounts	87,946	-	-	-	55,834	143,780
Taxes	1,298,275	1,025,499	935,312	-	-	3,259,086
Leases Receivable	-	-	-	1,455,000	-	1,455,000
Due from Governmental Units	-	-	-	-	51,898	51,898
TOTAL ASSETS	\$ 3,569,745	\$ 2,567,980	\$ 937,210	\$ 1,455,000	\$ 849,444	\$ 9,379,379
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 51,682	\$ 51,682
Accounts Payable	34,291	-	-	-	8,580	42,871
Accrued Liabilities	50,421	-	-	-	1,063	51,484
Deferred Revenue	1,097,484	-	935,312	1,455,000	-	3,487,796
TOTAL LIABILITIES	1,182,196	-	935,312	1,455,000	61,325	3,633,833
FUND BALANCES:						
Reserved for Revenue Sharing	-	2,567,980	-	-	-	2,567,980
Unreserved:						
Undesignated	622,161	-	-	-	783,119	1,405,280
Designated	1,765,388	-	1,898	-	5,000	1,772,286
TOTAL FUND BALANCES	2,387,549	2,567,980	1,898	-	788,119	5,745,546
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,569,745	\$ 2,567,980	\$ 937,210	\$ 1,455,000	\$ 849,444	
Reconciliation to amounts reported for governmental activities in the statement of net assets:						
Capital assets used by governmental activities						4,335,202
Long term notes & leases payable for governmental activities						(2,954,744)
Compensated absences liability						(167,803)
Deferred revenue recognized as current revenue						1,455,000
Accrued interest expense						(24,734)
Net assets of governmental activities						\$ 8,388,467

County of Mackinac, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2006

	General	Revenue Sharing Reserve	Hospital Millage	Mackinac Straits Hospital Debt	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 3,430,797	\$ 1,008,381	\$ 900,183	\$ -	\$ -	\$ 5,339,361
Licenses & Permits	7,477	-	-	-	-	7,477
Federal Sources	389,001	-	-	-	627,665	1,016,666
State Sources	774,305	-	-	-	446,072	1,220,377
Local Sources	82,429	-	-	199,793	18,500	300,722
Charges for Services	686,028	-	-	-	251,481	937,509
Fines & Forfeits	6,725	-	-	-	9,040	15,765
Interest & Rentals	134,420	44,191	628	-	17,267	196,506
Other Revenue	44,998	-	-	-	5,121	50,119
TOTAL REVENUES	5,556,180	1,052,572	900,811	199,793	1,375,146	9,084,502
EXPENDITURES:						
Legislative	130,045	-	-	-	-	130,045
Judicial	1,054,013	-	-	-	10,445	1,064,458
General Government	1,815,618	-	-	-	112,716	1,928,334
Public Safety	1,675,734	-	-	-	463,779	2,139,513
Public Works	-	-	-	-	119,100	119,100
Health & Welfare	171,290	-	898,934	-	202,768	1,272,992
Capital Outlay	-	-	-	-	740,000	740,000
Debt Service	-	-	-	199,793	129,809	329,602
Other Expenditures	337,987	-	-	-	-	337,987
TOTAL EXPENDITURES	5,184,687	-	898,934	199,793	1,778,617	8,062,031
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	371,493	1,052,572	1,877	-	(403,471)	1,022,471
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	380,978	-	-	-	319,309	700,287
Operating Transfers Out	(319,309)	(204,844)	-	-	(46,325)	(570,478)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	433,162	847,728	1,877	-	(130,487)	1,152,280
FUND BALANCES, JANUARY 1	1,954,387	1,720,252	21	-	918,606	4,593,266
FUND BALANCES, DECEMBER 31	\$ 2,387,549	\$ 2,567,980	\$ 1,898	\$ -	\$ 788,119	\$ 5,745,546

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2006**

Net Changes in fund balances – total governmental funds \$ 1,152,280

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which capital outlay \$902,688
exceeded depreciation expense of \$(226,008). 676,680

Repayment of bond principal is an expenditure in the governmental
fund but reduces the liability in the statement of net assets. 198,000

Recognition of prior year prepaid expense as an expense in the current
year. (36,797)

Repayment of capital lease is an expenditure in the governmental fund
but reduces the liability in the statement of net assets. 43,845

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds, but
rather are deferred. (140,000)

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual
basis, expenses and liabilities are reported regardless of when financial
resources are available. In addition, interest on long-term debt is not
recognized under the modified accrual basis of accounting until due,
rather than as it accrues. This adjustment combines the following net
changes:

Compensated absences	(22,460)	
Accrued interest on bonds	<u>1,375</u>	
		<u>(21,085)</u>

Changes in net assets of governmental funds \$ 1,872,923

**Statement of Net Assets
Proprietary Funds
December 31, 2006**

	Enterprise Funds		Totals
	Major	Non-Major	
	Delinquent Tax Fund	Sheriff Commissary	
ASSETS:			
Cash and Equivalents	\$ 5,024,616	\$ 13,112	\$ 5,037,728
Accounts Receivable	5,964	-	5,964
Interest Receivable	47,430	-	47,430
Taxes Receivable	833,160	-	833,160
Due from Governmental Units	10,402	-	10,402
TOTAL ASSETS	\$ 5,921,572	\$ 13,112	\$ 5,934,684
LIABILITIES:			
Accounts Payable	\$ -	\$ 268	\$ 268
TOTAL LIABILITIES	-	268	268
NET ASSETS:			
Reserved	412,730	-	412,730
Unreserved	5,508,842	12,844	5,521,686
TOTAL NET ASSETS	5,921,572	12,844	5,934,416
TOTAL LIABILITIES AND NET ASSETS	\$ 5,921,572	\$ 13,112	\$ 5,934,684

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2006**

	Enterprise Funds		Totals
	Major	Non-Major	
	Delinquent Tax Fund	Sheriff Commissary	
OPERATING REVENUES:			
Charges for Services	\$ 183,588	\$ 35,527	\$ 219,115
Interest & Rentals	222,014	-	222,014
Other Revenues	79	-	79
 TOTAL REVENUES	 405,681	 35,527	 441,208
OPERATING EXPENSES:			
Other Expenses	95,925	22,857	118,782
 TOTAL EXPENSES	 95,925	 22,857	 118,782
 OPERATING INCOME (LOSS)	 309,756	 12,670	 322,426
NON-OPERATING REVENUES (EXPENSES):			
Interest on Deposits	174,375	-	174,375
Total Non-operating Revenues (Expenses)	174,375	-	174,375
 Income (loss) before transfers	 484,131	 12,670	 496,801
Operating Transfers Out	(129,809)	-	(129,809)
 Change in Net Assets	 354,322	 12,670	 366,992
 NET ASSETS, JANUARY 1	 5,567,250	 174	 5,567,424
 NET ASSETS, DECEMBER 31	 \$ 5,921,572	 \$ 12,844	 \$ 5,934,416

County of Mackinac, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2006

	Enterprise Funds		
	Major	Nonmajor	
	Delinquent Tax Fund	Sheriff Commissary	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 2,752,175	\$ 35,527	\$ 2,787,702
Payments to Suppliers	(2,478,905)	(22,589)	(2,501,494)
Net Cash Provided (Used) by Operating Activities	273,270	12,938	286,208
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers Out	(129,809)	-	(129,809)
Net Cash Provided (Used) by Non-Capital Financing Activities	(129,809)	-	(129,809)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Sale of Investments	439,607	-	439,607
Net Cash Provided (Used) by Capital Financing Activities	439,607	-	439,607
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Earned	174,375	-	174,375
Net Cash Provided (Used in) Investing Activities	174,375	-	174,375
Net Increase (Decrease) in Cash and Cash Equivalents	757,443	12,938	770,381
Cash and Cash Equivalents - Beginning of the Year	4,267,173	174	4,267,347
Cash and Cash Equivalents - End of the Year	<u>\$ 5,024,616</u>	<u>\$ 13,112</u>	<u>\$ 5,037,728</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 309,756	\$ 12,670	\$ 322,426
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables	(31,734)	-	(31,734)
Increase (Decrease) in Liabilities:			
Payables	(4,752)	268	(4,484)
Net Cash Provided (Used) by Operating Activities	<u>\$ 273,270</u>	<u>\$ 12,938</u>	<u>\$ 286,208</u>

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash & Cash Equivalents	<u>\$ 1,097,033</u>
 TOTAL ASSETS	 <u><u>\$ 1,097,033</u></u>
 LIABILITIES:	
Due to Others	\$ 681
Due to Governmental Units	805,563
Due to Other Individuals	<u>290,789</u>
 TOTAL LIABILITIES	 <u><u>\$ 1,097,033</u></u>

Component Units

County of Mackinac, Michigan

Statement of Net Assets

Component Units

December 31, 2006

	Road Commission	Board of Public Works	Housing Commission	Economic Development Corporation	Totals
ASSETS:					
Current Assets:					
Cash & Equivalents	\$ 1,191,049	\$ -	\$ 34,031	\$ 3,972	\$ 1,229,052
Accounts Receivable	47,624	-	9,943	-	57,567
Leases Receivable	-	102,000	-	-	102,000
Prepaid Expenses	70,469	37,572	12,006	-	120,047
Inventories	868,413	-	-	-	868,413
Due from other governmental units	807,747	-	-	-	807,747
Accrued Interest	-	-	100	-	100
Noncurrent Assets:					
Leases Receivable	-	3,866,000	-	-	3,866,000
Capital Assets (net)	28,743,064	-	1,556,104	-	30,299,168
TOTAL ASSETS	\$ 31,728,366	\$ 4,005,572	\$ 1,612,184	\$ 3,972	\$ 37,350,094
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 93,347	\$ -	\$ 12,708	\$ -	\$ 106,055
Accrued Liabilities	63,180	-	7,004	-	70,184
Accrued Interest Payable	26,212	37,572	-	-	63,784
Advances from State	149,360	-	-	-	149,360
Deferred Revenue	-	-	878	-	878
Other Liabilities	61,750	-	-	-	61,750
Bonds Payable	80,000	102,000	-	-	182,000
Installment Notes	75,740	-	-	-	75,740
Capital Leases Payable	1,579	-	-	-	1,579
Noncurrent Liabilities:					
Bonds Payable	1,580,000	3,866,000	-	-	5,446,000
Installment Notes	701,421	-	-	-	701,421
Capital Leases Payable	1,515	-	-	-	1,515
Vested Employee Benefits	90,439	-	8,301	-	98,740
TOTAL LIABILITIES	2,924,543	4,005,572	28,891	-	6,959,006
NET ASSETS:					
Invested in Capital Assets, net of related debt	26,302,809	-	1,556,104	-	27,858,913
Restricted for County Road	815,259	-	-	-	815,259
Unrestricted	1,685,755	-	27,189	3,972	1,716,916
TOTAL NET ASSETS	\$ 28,803,823	\$ -	\$ 1,583,293	\$ 3,972	\$ 30,391,088

County of Mackinac, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Board of Public Works	Housing Commission	Economic Development Corporation	Total
Road Commission:									
Public Works	\$ 3,768,545	\$ 305,707	\$ 4,654,341	\$ -	\$ 1,191,503	\$ -	\$ -	\$ -	\$ 1,191,503
Board of Public Works									
Public Works	192,781	-	192,771	-	-	(10)	-	-	(10)
Housing Commission									
Health & Welfare	349,533	73,795	106,730	92,113	-	-	(76,895)	-	(76,895)
Economic Development Corporation									
Community/Economic Development	2,464	650	-	-	-	-	-	(1,814)	(1,814)
Total Component Units	<u>\$ 4,313,323</u>	<u>\$ 380,152</u>	<u>\$ 4,953,842</u>	<u>\$ 92,113</u>	<u>1,191,503</u>	<u>(10)</u>	<u>(76,895)</u>	<u>(1,814)</u>	<u>1,112,784</u>
General Revenues:									
Sale of Fixed Asset (Loss)					-	-	(78)	-	(78)
Investment Earnings					46,902	-	1,840	51	48,793
Local Sources					102,214	-	-	-	102,214
Other					82,262	-	10,612	-	92,874
Total General Revenues					<u>231,378</u>	<u>-</u>	<u>12,374</u>	<u>51</u>	<u>243,803</u>
Change in Net Assets					<u>1,422,881</u>	<u>(10)</u>	<u>(64,521)</u>	<u>(1,763)</u>	<u>1,356,587</u>
Net Assets - Beginning					<u>27,380,942</u>	<u>10</u>	<u>1,647,814</u>	<u>5,735</u>	<u>29,034,501</u>
Net Assets - Ending					<u>\$ 28,803,823</u>	<u>\$ -</u>	<u>\$ 1,583,293</u>	<u>\$ 3,972</u>	<u>\$ 30,391,088</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Mackinac, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Mackinac, Michigan, established October 26, 1818, is a public corporation created under the Constitution and Statutes of the State of Michigan and covers an area of approximately 1,000 square miles with the County seat located in the City of St. Ignace. The County operates under an elected Board of Commissioners (five members) and provides services to its more than eleven thousand residents in many areas: including law enforcement, administration of justice, public housing, public health, social services, and roads.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Mackinac Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component unit's column in the government-wide financial statements includes the financial data of the other component units of the County. The following is a summary of the component units:

Mackinac County Road Commission - The Mackinac County Road Commission maintains local, state, and federal trunklines within Mackinac County. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local governmental units within the County. The Road Commission operates under a Board which consists of three commissioners, who are elected by County residents. The Road Commission is financially accountable to the County for two reasons: (1) The County is secondarily obligated to provide repayment of material notes (2) all general long-term debt issuance, excluding capital lease purchases agreements, requires County authorization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mackinac County Board of Public Works – The Board of Public Works has the responsibility of administering the various public works project construction and debt services under the provisions of Act 185, Public Act of 1957, as amended. The Board of Public Works is under the general control of the County Board of Commissioners. The County must authorize and approve any long-term debt issues and are secondarily responsible for all obligations.

Mackinac County Housing Commission – Is a nonprofit entity established pursuant to the authority of Act 18 of the Public Act of 1933, as amended, which is governed by a County appointed (five member) board. This is a legally separate entity, but is considered as a component unit due to the County's ability to influence the Housing Commission's actions through representation on the Housing Commission Board because of their financial relationship.

Mackinac County Economic Development Corporation – During 2001, the Mackinac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended, which is governed by an (eleven person) board of directors appointed by the Mackinac County Board of Commissioners. The EDC may not issue debt without the County's approval.

Component Unit Financial Statements – The financial statements of the Mackinac County Road Commission and the Mackinac County Housing Commission are audited separately and may be obtained from their administration offices at the following locations:

Mackinac County Road Commission
706 North State Street
St. Ignace, MI 49871

Mackinac County Housing Commission
N9174 Kozy Street 50
Curtis, MI 49820

The funds and account groups associated with the activities of the Mackinac County Board of Public Works are included within the scope of the audit of the basic financial statements. Separate audited financial statements for the component were not issued.

Fiscal Year Ended – All of the County funds and Component Units operate and are reported on a December 31st year end with the exception of the Mackinac County Housing Commission which operates as of June 30.

Jointly Governed Organizations

Mackinac Straits Hospital Authority – Is a joint municipal hospital authority, organized pursuant to public Act 47, as amended. The Hospital operates an emergency room, acute care, long-term care, and ancillary services to both residents and non-residents of Mackinac County. The County has entered into a Health Service Agreement and the County levied a voter approved millage. In addition, the County leases the Hospital and Medical Care Facility to the Authority. However, the County does not appoint the governing Board, nor do they have any fiscal responsibility. Therefore, it is not considered a component unit of Mackinac County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hiawatha Behavioral Health Authority – Is a multi-county agency established in 1986 under the provisions of Act 258, P.S. 1974 as amended in the revised Mental Health Code, to provide mental health services to Mackinac, Schoolcraft, and Chippewa Counties. Mackinac, Schoolcraft, and Chippewa Counties provide annual appropriations to subsidize operations. Hiawatha Behavioral Health is considered a separate authority and is not included as a component unit of any of the counties above.

Luce-Mackinac-Alger-Schoolcraft District Health Department – Is a multi-county agency established to provide public health service to the residents of Luce, Mackinac, Alger, and Schoolcraft Counties. Mackinac and the other participating Counties provide annual appropriations to subsidize operations. The Health Department is a component unit of Luce County.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Property Taxes

The County of Mackinac property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Mackinac as of the preceding December 31st.

Although, the County of Mackinac 2005 ad valorem tax is levied and collectible on December 1, 2005 and 2006 ad valorem tax is levied and collectible on July 1, 2006, it is the County of Mackinac's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the Delinquent Tax Revolving fund within one year.

The 2005 taxable valuation of the County of Mackinac totaled \$761,621,092, on which ad valorem taxes levied consisted of 2.8746 mills for the County Operating and 1.2000 mills for Hospital Operations, raising \$2,189,356 and \$913,945 respectively. 1/3 of the General fund 2005 levy was recognized in the Revenue Sharing Reserve fund. These amounts are recognized in the respective General and Special Revenue financial statements as tax revenue.

The July 1, 2006 taxable valuation of the County of Mackinac totaled \$801,024,899, on which ad valorem taxes levied consisted of 2.7403 mills for the General fund. This amount is recognized as revenue in the General fund.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Hospital Millage Fund

This Fund accounts for the collection of tax revenues for health services and the contract for the services with the Mackinac Straits Hospital.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Sharing Reserve Fund**

This Fund accounts for the collection of tax revenues for the replacement of State Shared Revenue.

Mackinac Straits Hospital

This Fund is used to accumulate resources and pay the principal and interest on the Medical Care Facility Bond.

The County reports the following major proprietary funds:

Delinquent Tax Revolving Fund

This fund accounts for the payment to each local unit of government within the County for the delinquent real property taxes outstanding as of March 1, of each year. The fund is also used to account for the collection of those delinquent taxes along with penalties and interest.

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain insurance premiums and other expenditures are expensed when purchased.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vested Benefits Payable – General County Employees - The County's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service.

The annual vacation benefits earned by each employee during the current year are credited to the employee at year end.

Employees' vacation and sick leave benefits are earned at varying amounts depending on various union and non-union personnel policies. Employees may accumulate vacation leave up to 175 hours until termination of employment, at which time they will be compensated in full for the unused portion. All employees may accumulate up to 630 hours of sick leave. However, employees are compensated for 50 percent of their total accumulation at termination.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Cash Equivalents – Unrestricted	\$ 4,417,933	\$ 5,037,738	\$ 9,455,671	\$ 1,097,033	\$ 1,229,052
Total	\$ 4,417,933	\$ 5,037,738	\$ 9,455,671	\$ 1,097,033	\$ 1,229,052
		<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	
Bank Deposits (checking and savings accounts, certificates of deposit)		\$ 9,454,171	\$ 1,097,033	\$ 1,228,902	
Petty Cash and Cash on Hand		1,500	-	150	
Total		\$ 9,455,671	\$ 1,097,033	\$ 1,229,052	

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$10,140,935 of the County's bank balance of \$10,547,477 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
<i>Capital Assets not being Depreciated:</i>					
Land Improvements	\$ 22,126	\$ -	\$ -	\$ -	\$ 22,126
Land	298,114	-	-	-	298,114
Construction in Progress	<u>239,276</u>	<u>-</u>	<u>-</u>	<u>(239,276)</u>	<u>-</u>
Subtotal	<u>559,516</u>	<u>-</u>	<u>-</u>	<u>(239,276)</u>	<u>320,240</u>
<i>Capital Assets being Depreciated:</i>					
Buildings	4,081,468	564,276	-	48,752	4,694,496
Machinery and Equipment	964,623	162,688	-	-	1,127,311
Infrastructure	-	415,000	-	-	415,000
Airport Improvement	<u>48,752</u>	<u>-</u>	<u>-</u>	<u>(48,752)</u>	<u>-</u>
Subtotal	<u>5,094,843</u>	<u>1,141,964</u>	<u>-</u>	<u>-</u>	<u>6,236,807</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Less accumulated depreciation for:</i>					
Buildings	(1,430,430)	(109,242)	-	(4,875)	(1,544,547)
Equipment	(560,532)	(100,166)	-	-	(660,698)
Infrastructure	-	(16,600)	-	-	(16,600)
Airport Improvement	(4,875)	-	-	4,875	-
Subtotal	(1,995,837)	(226,008)	-	-	(2,221,845)
Net Capital Assets Being Depreciated	3,099,006	915,956	-	-	4,014,962
Governmental Activity Total					
Capital Assets - Net of Depreciation	\$ 3,658,522	\$ 915,956	\$ -	\$ (239,276)	\$ 4,335,202

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Judicial	\$ 7,648
General Government	110,004
Public Safety	94,234
Health and Welfare	14,122
Total Governmental Activities	<u>\$ 226,008</u>

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Removals/ Adjustments</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>					
Land	\$ 282,472	\$ -	\$ -	\$ (14,250)	\$ 268,222
Land and Improvements	14,530,750	538,215	-	(31,015)	15,037,950
Subtotal	14,813,222	538,215	-	(45,265)	15,306,172
<i>Capital assets being depreciated:</i>					
Buildings and Improvements	1,640,367	-	-	-	1,640,367
Road Equipment	5,137,154	1,202,962	386,374	-	5,953,742
Shop Equipment	20,706	1,141	-	-	21,847
Office Equipment	96,262	828	27,331	-	69,759
Engineer's Equipment	19,947	1,581	-	-	21,528
Depletable Assets	27,578	-	-	14,250	41,828
Infrastructure – Bridges	3,066,716	611,594	-	6,527	3,684,837
Infrastructure – Roads	12,997,200	1,239,087	-	(460,543)	13,775,744
Subtotal	23,005,930	3,057,193	413,705	(439,766)	25,209,652

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Removals/ Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation:</i>					
Buildings	182,135	36,478	-	-	218,613
Road Equipment	4,064,728	581,938	386,048	-	4,260,618
Shop Equipment	17,759	911	-	-	18,670
Office Equipment	81,532	6,049	27,183	-	60,398
Engineer's Equipment	10,916	2,508	-	-	13,424
Depletable Assets	17,494	13,559	-	-	31,053
Infrastructure – Bridges	1,523,640	70,677	-	(31,763)	1,562,554
Infrastructure – Roads	<u>5,217,092</u>	<u>843,606</u>	<u>-</u>	<u>(453,268)</u>	<u>5,607,430</u>
Subtotal	<u>11,115,296</u>	<u>1,555,726</u>	<u>413,231</u>	<u>(485,031)</u>	<u>11,772,760</u>
Net Capital Assets Being Depreciated	<u>11,890,634</u>	<u>1,501,467</u>	<u>474</u>	<u>45,265</u>	<u>13,436,892</u>
Total Net Capital Assets	<u>\$ 26,703,856</u>	<u>\$ 2,039,682</u>	<u>\$ 474</u>	<u>\$ -</u>	<u>\$ 28,743,064</u>

Depreciation and depletion expense was charged to the following activities:

Public Works \$ 1,555,726

A summary of changes in the Housing Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 37,818	\$ -	\$ -	\$ 37,818
Construction in Progress	<u>6,048</u>	<u>-</u>	<u>(6,048)</u>	<u>-</u>
Subtotal	<u>43,866</u>	<u>-</u>	<u>(6,048)</u>	<u>37,818</u>
<i>Capital assets being depreciated:</i>				
Buildings	2,641,262	83,321	-	2,724,583
Building Improvements	824,432	-	-	824,432
Furniture, Equipment and Machinery – Dwellings	54,327	-	-	54,327
Furniture, Equipment and Machinery – Administration	<u>67,234</u>	<u>18,859</u>	<u>(1,165)</u>	<u>84,928</u>
Subtotal	<u>3,587,255</u>	<u>102,180</u>	<u>(1,165)</u>	<u>3,688,270</u>
Less accumulated depreciation	<u>(2,046,797)</u>	<u>(124,275)</u>	<u>1,088</u>	<u>(2,169,984)</u>
Net Capital Assets Being Depreciated	<u>1,540,458</u>	<u>(22,095)</u>	<u>(77)</u>	<u>1,518,286</u>
Total Net Capital Assets	<u>\$ 1,584,324</u>	<u>\$ (22,095)</u>	<u>\$ (6,125)</u>	<u>\$ 1,556,104</u>

Depreciation expense was charged to the following activities:

Health and Welfare \$ 124,275

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Mackinac, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	
	General Fund	
Survey Remonumentation	\$	<u>51,682</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

TRANSFERS IN	TRANSFERS (OUT)				
	General Fund	Revenue Sharing Reserve	Delinquent Tax	Other Funds	Total
General Fund	\$ -	\$ 204,844	\$ 129,809	\$ 46,325	\$ 380,978
All Other	<u>319,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,309</u>
Total	<u>\$ 319,309</u>	<u>\$ 204,844</u>	<u>\$ 129,809</u>	<u>\$ 46,325</u>	<u>\$ 700,287</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LEASES RECEIVABLE

Mackinac County Board of Public Works (Component Unit) – The County has entered into a number of lease agreements with various municipalities within the County. Under the agreements the County issued bonds that were used for the construction of water and/or sewage disposal systems. The municipalities agreed to pay the County the amount necessary to pay the principal, interest, and paying agent fees as they come due. Upon final payment of the respective bond issue, ownership of the system will revert to the respective municipalities. (See Note 8).

On this basis, the aggregate future lease payments necessary for retirement of outstanding bond principal have been recorded as receivable and deferred revenue.

The future minimum lease payments to be received are as follows:

<u>Year End December 31</u>	<u>Board of Public Works</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 102,000	\$ 174,414
2008	107,000	170,375
2009	109,000	165,990
2010	115,000	161,397
2011	122,000	156,613
2012-2016	567,000	717,372
2017-2021	695,000	582,022
2022-2026	878,000	404,572
2027-2031	659,000	191,175
2032-2036	380,000	91,705
2037-2039	234,000	14,927
Total	<u>\$ 3,968,000</u>	<u>\$ 2,830,562</u>

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds					
\$1,995,000 General Obligation Refunding					
Medical Facility bonds, Series 2002, due					
in annual installments increasing from					
\$115,000 to \$220,000 through May 1,					
2014, plus interest ranging from 3.25%					
to 4.30% payable semi-annually.	\$ 1,595,000	\$ -	\$ 140,000	\$ 1,455,000	\$ 135,000

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
\$1,300,000 Building Authority Bonds, through Rural Development, due in annual installments increasing from \$40,000 to \$90,000 through September 1, 2012, plus interest at 4.875 payable semi-annually.	1,000,000	-	40,000	960,000	45,000
\$589,000 Building Authority Bonds, through Rural Development, due in annual installments ranging from \$14,000 to \$40,000 through September 1, 2022, with interest of 4.875 payable semi- annually.	<u>473,000</u>	<u>-</u>	<u>18,000</u>	<u>455,000</u>	<u>20,000</u>
Total Governmental Activities	<u>\$ 3,068,000</u>	<u>\$ -</u>	<u>\$ 198,000</u>	<u>\$ 2,870,000</u>	<u>\$ 200,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 200,000	\$ 123,861
2008	200,000	115,798
2009	251,000	106,814
2010	252,000	96,602
2011	283,000	85,630
2012-2016	1,071,000	257,971
2017-2021	573,000	96,817
2022-2025	<u>40,000</u>	<u>1,950</u>
Total	<u>\$ 2,870,000</u>	<u>\$ 855,443</u>

A summary of vested benefits payable at December 31, 2006 is as follows:

Vacation	\$ 72,813
Sick Leave	<u>94,990</u>
TOTALS	<u>\$ 167,803</u>

NOTE 8 - LONG-TERM DEBT (Continued)

Component Units

Board of Public Works

The County has constructed several water supply and sewage disposal systems for various townships in the county and is leasing them to the townships that are operating, maintaining, and managing the systems. General Obligation Bonds were issued with the full faith and credit of the townships, villages, cities and County pledged to the payment pursuant to Act 185, Public Acts of Michigan, 1957, as amended. The principal and interest on bonds outstanding are to be paid out of money received from the municipalities by the Board of Public Works of the County pursuant to the lease agreements. Upon final payment of the respective bond issues, ownership of the systems will revert to the townships. Bonds payable at December 31, 2003, per respective construction projects are as follows:

The following is a summary of changes in the long-term debt of the Board of Public Works for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Within One Year</u>
\$145,000 1972 Mackinac County Sanitary Sewage Disposal System Revenue Bonds for Clark Township, maturing serially to 2012 in amounts ranging from \$22,000 to \$24,000 and bearing interest of 5% semiannually.	\$ 144,000	\$ -	\$ 24,000	\$ 120,000	\$ 24,000
\$2,475,000 Mackinac County Sanitary Sewage Disposal System #2 Bonds for Clark Township, Series 2002, maturing serially to 2031 in annual amounts ranging from \$45,000 to \$155,000 and bearing interest of 2% to 5.125 % semiannually.	2,275,000	-	55,000	2,220,000	55,000
\$90,000 Mackinac County Sewage Disposal System Bonds, Series 1999 for Clark Township, maturing semiannually to 2039 in annual amounts ranging from \$9,000 to \$51,000 and bearing interest of 4.75% semiannually.	853,000	-	10,000	843,000	11,000
\$90,000 Mackinac County Water Supply System Bonds for Moran Township dated September 1, 1994, due in annual installments of \$6,000 payable through September 1, 2009 with interest ranging from 6.4% to 7.00%.	24,000	-	24,000	-	-
\$842,000 Mackinac County Sewage Disposal System Bonds for Brevort Township dated December 20, 1999, due in annual installments increasing from \$10,000 to \$46,000 through December 1, 2032 with interest of 3.25% semiannually.	<u>796,000</u>	<u>-</u>	<u>11,000</u>	<u>785,000</u>	<u>12,000</u>
Total Board of Public Works	<u>\$ 4,092,000</u>	<u>\$ -</u>	<u>\$ 124,000</u>	<u>\$ 3,968,000</u>	<u>\$ 102,000</u>

NOTE 8 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Board of Public Works</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 102,000	\$ 174,414
2008	107,000	170,375
2009	109,000	165,990
2010	115,000	161,397
2011	122,000	156,613
2012-2016	567,000	717,372
2017-2021	695,000	582,022
2022-2026	878,000	404,572
2027-2031	659,000	191,175
2032-2036	380,000	91,705
2037-2039	234,000	14,927
Total	<u>\$ 3,968,000</u>	<u>\$ 2,830,562</u>

The following is a summary of changes in the long-term debt of the Road Commission for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment Notes –					
Equipment 2001	\$ 25,714	\$ -	\$ 25,714	\$ -	\$ -
Equipment 2002	61,061	-	61,061	-	-
Equipment 2005	9,500	-	9,500	-	-
Equipment 2006	<u>-</u>	<u>809,802</u>	<u>32,641</u>	<u>777,161</u>	<u>75,740</u>
	<u>96,275</u>	<u>809,802</u>	<u>128,916</u>	<u>777,161</u>	<u>75,740</u>
Bonds and Notes Payable –					
Bank Note	279,000	-	279,000	-	-
MTF Bonds 2001	865,000	-	35,000	830,000	40,000
MTF Bonds 2001A	<u>865,000</u>	<u>-</u>	<u>35,000</u>	<u>830,000</u>	<u>40,000</u>
	<u>2,009,000</u>	<u>-</u>	<u>349,000</u>	<u>1,660,000</u>	<u>80,000</u>
Other liabilities –					
Accrued Sick Vacation	69,058	12,231	-	81,289	-
MDOT Settlement	27,450	-	9,150	18,300	9,150
Capital Lease 2004	4,627	-	1,533	3,094	1,579
Self Insurance	<u>-</u>	<u>52,600</u>	<u>-</u>	<u>52,600</u>	<u>52,600</u>
	<u>101,135</u>	<u>64,831</u>	<u>10,683</u>	<u>155,283</u>	<u>63,329</u>
Total	<u>\$ 2,206,410</u>	<u>\$ 874,633</u>	<u>\$ 488,599</u>	<u>\$ 2,592,444</u>	<u>\$ 219,069</u>

NOTE 8 - LONG-TERM DEBT (Continued)

Significant details regarding outstanding long-term liabilities are presented below:

Installment Notes –

In December 2001, the Road Commission borrowed \$119,342 for the purchase of an excavator. The note is payable monthly in the amount of \$2,217 including interest of 4.3516 percent annually until December 28, 2006.

In February 2002, the Road Commission borrowed \$242,966 for the purchase of two loaders. The note is payable monthly in the amount of \$4,503 including interest of 4.246 percent annually until February of 2007; however, the Road Commission paid the remaining balance in full during 2006.

In May 2005, the Road Commission borrowed \$28,500 for the purchase of a V-Bottom Trailer. The note is payable monthly in the amount of \$2,500, commencing June 5, 2005 through March 5, 2006, with the balance of \$2,000 due April 5, 2006.

In January 2006, the Road Commission borrowed \$93,892 for the purchase of a tractor and compactor. The note is payable in monthly installments until January 2011 in the amount of 44,427. The balance at December 31, 2006 is \$78,039.

In August 2006, the Road Commission borrowed \$428,104 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2006 is \$411,316.

In December 2006, the Road Commission borrowed \$287,806 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2006 is \$287,806.

The annual requirements to amortize the installment rate liability outstanding at December 31, 2006 are as follows:

<u>Year End December 31</u>	<u>Installment Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 75,740	\$ 32,120
2008	81,224	29,716
2009	84,875	26,065
2010	88,689	22,250
2011	73,197	18,605
2012-2016	<u>373,436</u>	<u>41,409</u>
Total	<u>\$ 777,161</u>	<u>\$ 170,165</u>

NOTE 8 - LONG-TERM DEBT (Continued)**MTF Note – Series 2003 –**

The County of Mackinac, Michigan issued a Michigan Transportation Fund Reserve Note for \$500,000, of which \$320,000 was drawn on June 5, 2003, and \$180,000 was drawn on August 3, 2005. The note was issued under and in full compliance with the constitution and statutes of the State of Michigan, including specifically Act 143, Public Acts of Michigan, 1943 as amended. The note is issued in anticipation of and is payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 143.

The final principal payment on the note was due and paid on October 1, 2006, with interest at a rate of 3.35 percent per annum.

MTF Bonds –

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to purchase equipment, which is necessary and incidental thereto.

Principal on the bonds is due on July 1, 2006 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage, which is necessary and incidental thereto.

Principal on the bonds is due on June 1, 2006 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

NOTE 8 - LONG-TERM DEBT (Continued)

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2006 through 2011 are not subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 are subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The MTF Series 2001A in 2006 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The annual requirements to amortize the bonds outstanding as December 31, 2006, including interest payments are as follows:

Year Ending December 31,	MTF Bonds Series 2001		MTF Bond Series 2001A	
	Principal	Interest	Principal	Interest
2007	\$ 40,000	\$ 43,060	\$ 40,000	\$ 39,828
2008	40,000	41,260	40,000	38,168
2009	40,000	39,420	40,000	36,456
2010	45,000	37,540	45,000	32,561
2011-2021	<u>665,000</u>	<u>235,571</u>	<u>665,000</u>	<u>209,390</u>
	<u>\$ 830,000</u>	<u>\$ 396,851</u>	<u>\$ 830,000</u>	<u>\$ 356,403</u>

NOTE 9 - RISK MANAGEMENT

The County is exposed to various risks of loss related to: torts, errors, and omissions, injuries to employees, natural disaster, and the damage, destruction or theft of assets. The County is a member in the Michigan Municipal Risk Management Authority (MMRMA) for risk of loss relating to its property and general liability (including auto liability and vehicle physical damage).

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and property liability.

The County has joined the numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool". Members of the State Pool do not have individual self-insured retention amounts other than \$250 deductible per occurrence of property and vehicle coverage.

State Pool members' limits of coverage (per occurrence) are 10 million for liability and approximately \$9,800,000 for property. If a covered loss exceeds these limits, or if for any reason MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the County.

Component Unit (Road Commission)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. The "Pool" was established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools and to prescribe conditions to the performance of those contracts.

The Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Mackinac County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, commercial crime, equipment and building and contracts. The agreement for the formation of the Pool provides that the Pool will be self sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self Insurance Fund for worker's compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

NOTE 10 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2006.

In the normal course of its operations, Mackinac County often becomes a party to various claims and lawsuits. In the opinion of management and legal counsel, if any of these claims should result in an unfavorable resolution, the liability would be limited to its deductible under insurance policies. The insurer would pay the losses and there should be no material effect on the financial position of the County.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0 percent times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2005.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to, and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Annual Pension Cost

During the year ended December 31, 2006, the County's contributions totaling \$327,866 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The Employer normal cost is for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 6,979,504	\$ 7,516,295	\$ 7,822,592
Actuarial Accrued Liability	9,527,188	9,956,056	10,202,546
Unfunded AAL	2,547,684	2,439,761	2,379,954
Funded Ratio	73%	75%	77%
Covered Payroll	2,049,163	1,822,206	1,752,084
UAAL as a Percentage of Covered Payroll	124%	134%	136%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 327,804	100%	0
2005	331,759	100%	0
2006	327,866	100%	0

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**ROAD COMMISSION**Description of Plan and Plan Assets

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 23.26% for general employees, 29.24% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$233,711 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	2003	2004	2005
Actuarial Value of Assets	\$ 3,210,430	\$ 3,393,555	\$ 3,590,890
Actuarial Accrued Liability	5,293,620	5,687,076	5,795,076
Unfunded AAL	2,083,190	2,293,521	2,204,186
Funded Ratio	61%	60%	62%
Covered Payroll	833,963	868,395	866,581
UAAL as a Percentage of Covered Payroll	249%	264%	254%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 210,492	100%	0
2005	210,492	100%	0
2006	223,711	100%	0

NOTE 12 - LEASES

Capital Leases – The County leases vehicles under capital lease with yearly lease payments ranging from \$4,895 to \$39,800, including interest rates ranging from 5.15% to 6.75%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date. The vehicles have been included with the fixed assets of the County. The future minimum lease obligations and the net present values are as follows:

2007	\$ 45,702
2008	<u>45,701</u>
Total minimum lease payments	91,403
Less amount representing interest	<u>(6,659)</u>
Present value of minimum lease payment	<u>\$ 84,744</u>

NOTE 13 - POST-RETIREMENT BENEFITS

Primary Government

In addition to the pension benefits described in Note 11, Mackinac County provides a portion of post-retirement health care benefits to all employees that retired from the County with at least fifteen years of service. The County pays from between 15% for employees who retire with fifteen years of service to 50% for employees who retire with twenty-five years of service of the single rate. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis and amounted to \$15,286 for 2006 with 8 eligible participants.

NOTE 13 - POST-RETIREMENT BENEFITS (Continued)

Component Unit (Road Commission)

In addition to the pension benefits describe in Note 11, the Mackinac County Road Commission provides post-retirement health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years of service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2006, these costs amount to approximately \$51,974 with four eligible participants.

NOTE 14 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserve can be described as follows:

Revenue Sharing Reserve	2,567,980	Restricted/Reserved for Revenue Sharing
Delinquent Tax	412,730	Restricted/Reserved for Tax Administration

NOTE 15 - DESIGNATED FUND BALANCE

The various governing boards of the County have the power to designate or set aside, all or a portion of unreserved fund balance for specific purposes. The following is a summary of designated fund balance of December 31, 2006:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Capital Improvements	\$ 1,765,388
Hospital Millage	Hospital Purposes	1,898
Nonmajor Fund		
911 Landlines	Equipment	<u>5,000</u>
		<u>\$ 1,772,286</u>

NOTE 16 - RETAINED EARNINGS RESERVED

In addition, there is \$412,732 of retained earnings reserved in the Delinquent Tax Revolving Fund for the tax sale.

NOTE 17 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Court House and Grounds	\$ 294,565	\$ 342,644	(47,779)
Juvenile Coordinator	16,073	16,462	(389)
Sheriff	484,577	492,520	(7,943)
Bois Blanc Deputy	42,180	43,640	(1,460)
Veterans Affairs	10,255	12,786	(2,531)
Housing Board	2,200	3,756	(1,556)
Economic Development	1,750	2,188	(438)
Other Health and Welfare	103,575	119,157	(15,582)
Insurance	230,923	265,885	(34,962)
Other	6,225	22,087	(15,862)

Required Supplementary Information

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 3,167,000	\$ 3,195,039	\$ 3,430,797	\$ 235,758
Licenses and Permits	7,500	7,500	7,477	(23)
Federal Grants	394,071	391,597	389,001	(2,596)
State Grants	882,973	884,133	774,305	(109,828)
Local Contributions	80,689	101,711	82,429	(19,282)
Charges for Services	618,338	681,657	686,028	4,371
Fines & Forfeits	4,525	9,025	6,725	(2,300)
Interest & Rentals	45,125	45,125	134,420	89,295
Other Revenues	25,900	25,900	44,998	19,098
TOTAL REVENUES	5,226,121	5,341,687	5,556,180	214,493
EXPENDITURES:				
Legislative:				
Board of Commissioners	137,638	140,165	130,045	10,120
General Government:				
Elections	25,672	25,672	18,257	7,415
County Clerk	207,712	207,712	200,611	7,101
Equalization	272,698	273,248	243,395	29,853
Prosecuting Attorney	353,504	356,728	352,710	4,018
Register of Deeds	170,775	175,095	161,969	13,126
County Treasurer	181,904	181,904	177,017	4,887
Cooperative Extension	132,460	132,460	122,491	9,969
Data Processing	47,500	47,500	38,471	9,029
Building Authority	550	550	-	550
Court House and Grounds	294,565	294,565	342,344	(47,779)
Microfilm Department	2,000	2,000	559	1,441
Planning Commission	29,900	30,700	22,219	8,481
Airport	100,573	119,073	110,810	8,263
Legal Services	11,000	11,000	814	10,186
Audit Services	26,245	26,245	23,951	2,294
Total general government	1,857,058	1,884,452	1,815,618	68,834
Judicial:				
Circuit Court	118,140	140,960	84,933	56,027
Family Court	71,571	73,252	37,219	36,033
District Court	312,499	349,088	340,509	8,579
Friend of the Court	193,413	193,413	190,592	2,821
Jury Board	5,450	5,450	2,858	2,592
Public Defender	68,986	68,986	68,986	-
Probate Court	325,126	325,126	312,454	12,672
Juvenile Coordinator	16,073	16,073	16,462	(389)
Total judicial	1,111,258	1,172,348	1,054,013	118,335

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	481,335	484,577	492,520	(7,943)
Secondary Road Patrol	99,183	99,232	63,149	36,083
Bois Blanc Deputy	41,367	42,180	43,640	(1,460)
SANE	13,000	13,000	13,000	-
Marine Law Enforcement	201,604	201,604	92,253	109,351
Snowmobile Law Enforcement	52,285	55,754	38,072	17,682
Forest Services	1,615	1,615	-	1,615
County Jail	763,604	792,688	779,603	13,085
Emergency Preparedness	59,470	98,163	87,739	10,424
Animal Control	59,177	67,827	65,758	2,069
Total public safety	1,772,640	1,856,640	1,675,734	180,906
Health And Welfare:				
Medical Examiner	37,390	37,390	32,708	4,682
Veterans Affairs	9,755	10,255	12,786	(2,531)
Housing	758	758	695	63
Housing Board	2,200	2,200	3,756	(1,556)
Economic Development	1,000	1,750	2,188	(438)
Other Health and Welfare	103,575	103,575	119,157	(15,582)
Total health and welfare	154,678	155,928	171,290	(15,362)
Other Expenditures:				
Fringe Benefits	51,746	51,746	50,015	1,731
Insurance	184,000	230,923	265,885	(34,962)
Contingency	50,000	-	-	-
Other	1,100	6,225	22,087	(15,862)
Total other expenditures	286,846	288,894	337,987	(49,093)
TOTAL EXPENDITURES	5,320,118	5,498,427	5,184,687	313,740
EXCESS OF REVENUES OVER EXPENDITURES	(93,997)	(156,740)	371,493	528,233
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	337,544	337,544	380,978	43,434
Operating Transfers Out	(322,200)	(322,200)	(319,309)	2,891
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (78,653)	\$ (141,396)	433,162	\$ 574,558
FUND BALANCES, JANUARY 1			1,954,387	
FUND BALANCES, DECEMBER 31			\$ 2,387,549	

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 1,033,909	\$ 1,033,909	\$ 1,008,381	\$ (25,528)
Interest & Rentals	24,000	24,000	44,191	20,191
 TOTAL REVENUES	 1,057,909	 1,057,909	 1,052,572	 (5,337)
 EXCESS OF REVENUES (EXPENDITURES)	 1,057,909	 1,057,909	 1,052,572	 \$ (5,337)
 OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(204,844)	(204,844)	(204,844)	-
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 \$ 853,065	 \$ 853,065	 847,728	 \$ (5,337)
 FUND BALANCE, JANUARY 1			1,720,252	
 FUND BALANCE, DECEMBER 31			\$ 2,567,980	

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule Hospital Millage Fund For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 905,800	\$ 905,800	\$ 900,183	\$ (5,617)
Interest & Rentals	800	800	628	(172)
 TOTAL REVENUES	 906,600	 906,600	 900,811	 (5,789)
 EXPENDITURES:				
Health and Welfare	900,000	900,000	898,934	1,066
 TOTAL EXPENDITURES	 900,000	 900,000	 898,934	 1,066
 EXCESS OF REVENUES (EXPENDITURES)	 \$ 6,600	 \$ 6,600	 1,877	 \$ (4,723)
 FUND BALANCE, JANUARY 1			21	
 FUND BALANCE, DECEMBER 31			\$ 1,898	

Other Supplementary Information

County of Mackinac, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds								
	Liquor Law Enforcement	Friend of the Court	Family Counseling	Emergency Planning	Pass-Through Grants	R.O.D Automation	Survey Remonumentation	Community Corrections	911 Program
ASSETS:									
Cash and Equivalents	\$ 26,230	\$ 15,410	\$ 19,975	\$ 2,968	\$ -	\$ 40,974	\$ -	\$ 35,343	\$ 361,728
Accounts Receivable	-	710	-	-	-	-	-	-	20,245
Due from Other Governmental Units	-	-	-	-	-	-	51,898	-	-
TOTAL ASSETS	<u>\$ 26,230</u>	<u>\$ 16,120</u>	<u>\$ 19,975</u>	<u>\$ 2,968</u>	<u>\$ -</u>	<u>\$ 40,974</u>	<u>\$ 51,898</u>	<u>\$ 35,343</u>	<u>\$ 381,973</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,682	\$ -	\$ -
Accounts Payable	-	-	-	-	-	-	-	819	508
Accrued Liabilities	-	-	-	-	-	-	-	480	391
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,682</u>	<u>1,299</u>	<u>899</u>
FUND EQUITY:									
Fund Balances:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	5,000
Undesignated	26,230	16,120	19,975	2,968	-	40,974	216	34,044	376,074
TOTAL FUND EQUITY	<u>26,230</u>	<u>16,120</u>	<u>19,975</u>	<u>2,968</u>	<u>-</u>	<u>40,974</u>	<u>216</u>	<u>34,044</u>	<u>381,074</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 26,230</u>	<u>\$ 16,120</u>	<u>\$ 19,975</u>	<u>\$ 2,968</u>	<u>\$ -</u>	<u>\$ 40,974</u>	<u>\$ 51,898</u>	<u>\$ 35,343</u>	<u>\$ 381,973</u>

County of Mackinac, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

Special Revenue Funds									
	911 Wireless	Correction's Officer's Training	Probation Oversight	Law Library	Airport Terminal Improvement	Michigan Justice Training	Township Road	Child Care	In Home Child Care
ASSETS:									
Cash and Equivalents	\$ 63,129	\$ 2,899	\$ 3,234	\$ 8,021	\$ 11,107	\$ 3,042	\$ 20,900	\$ 120,940	\$ -
Accounts Receivable	24,379	-	-	-	-	-	-	10,500	-
Due from Other Governmental Units	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 87,508	\$ 2,899	\$ 3,234	\$ 8,021	\$ 11,107	\$ 3,042	\$ 20,900	\$ 131,440	\$ -
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	254	195	-	666	-	-	-	6,138	-
Accrued Liabilities	192	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	446	195	-	666	-	-	-	6,138	-
FUND EQUITY:									
Fund Balances:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	87,062	2,704	3,234	7,355	11,107	3,042	20,900	125,302	-
TOTAL FUND EQUITY	87,062	2,704	3,234	7,355	11,107	3,042	20,900	125,302	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 87,508	\$ 2,899	\$ 3,234	\$ 8,021	\$ 11,107	\$ 3,042	\$ 20,900	\$ 131,440	\$ -

County of Mackinac, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds				Debt Service Funds	
	Veteran's Trust	Substance Abuse	Plat Book	Victim's Restitution	Courthouse Debt Service	Total
ASSETS:						
Cash and Equivalents	\$ 463	\$ -	\$ -	\$ 5,349	\$ -	\$ 741,712
Accounts Receivable	-	-	-	-	-	55,834
Due from Other Governmental Units	-	-	-	-	-	51,898
TOTAL ASSETS	\$ 463	\$ -	\$ -	\$ 5,349	\$ -	\$ 849,444
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,682
Accounts Payable	-	-	-	-	-	8,580
Accrued Liabilities	-	-	-	-	-	1,063
TOTAL LIABILITIES	-	-	-	-	-	61,325
FUND EQUITY:						
Fund Balances:						
Unreserved:						
Designated	-	-	-	-	-	5,000
Undesignated	463	-	-	5,349	-	783,119
TOTAL FUND EQUITY	463	-	-	5,349	-	788,119
TOTAL LIABILITIES AND FUND EQUITY	\$ 463	\$ -	\$ -	\$ 5,349	\$ -	\$ 849,444

County of Mackinac, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds								
	Liquor Law Enforcement	Friend of the Court	Family Counseling	Emergency Planning	Pass-Through Grants	R.O.D Automation	Survey Remonumentation	Community Corrections	911 Program
REVENUES:									
Federal Grants	\$ -	\$ -	\$ -	\$ 703	\$ 34,962	\$ -	\$ -	\$ -	\$ -
State Grants	10,029	-	-	-	26,134	-	86,492	4,664	-
Local Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	-	3,901	3,115	-	-	22,675	-	6,170	189,931
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	1,168	-	-	13,922
Other Revenues	-	-	-	-	-	-	-	5,121	-
TOTAL REVENUES	10,029	3,901	3,115	703	61,096	23,843	86,492	15,955	203,853
EXPENDITURES:									
General Government	-	-	-	-	-	26,435	86,281	-	-
Judicial	-	646	-	-	-	-	-	-	-
Public Safety	14,401	-	-	2,124	-	-	-	12,148	342,002
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	3,000	-	61,096	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	14,401	646	3,000	2,124	61,096	26,435	86,281	12,148	342,002
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,372)	3,255	115	(1,421)	-	(2,592)	211	3,807	(138,149)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	(4,319)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(4,372)	3,255	115	(1,421)	-	(6,911)	211	3,807	(138,149)
FUND BALANCES (DEFICIT), JANUARY 1	30,602	12,865	19,860	4,389	-	47,885	5	30,237	519,223
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 26,230	\$ 16,120	\$ 19,975	\$ 2,968	\$ -	\$ 40,974	\$ 216	\$ 34,044	\$ 381,074

County of Mackinac, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds								
	911 Wireless	Correction's Officer's Training	Probation Oversight	Law Library	Airport Terminal Improvement	Michigan Justice Training	Township Road	Child Care	In Home Child Care
REVENUES:									
Federal Grants	\$ -	\$ -	\$ -	\$ -	\$ 592,000	\$ -	\$ -	\$ -	\$ -
State Grants	96,482	-	-	-	129,500	1,902	-	31,246	-
Local Contributions	-	-	-	-	18,500	-	-	-	-
Charges for Services	-	2,740	-	-	-	-	-	21,371	-
Fines & Forfeits	-	-	2,245	2,500	-	-	-	-	-
Interest & Rentals	2,177	-	-	-	-	-	-	-	-
Other Revenues	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	98,659	2,740	2,245	2,500	740,000	1,902	-	52,617	-
EXPENDITURES:									
General Government	-	-	-	-	-	-	-	-	-
Judicial	-	-	-	7,052	-	-	-	-	-
Public Safety	84,744	3,435	1,707	-	-	3,218	-	-	-
Public Works	-	-	-	-	-	-	119,100	-	-
Health And Welfare	-	-	-	-	-	-	-	79,284	-
Debt Service	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	740,000	-	-	-	-
TOTAL EXPENDITURES	84,744	3,435	1,707	7,052	740,000	3,218	119,100	79,284	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,915	(695)	538	(4,552)	-	(1,316)	(119,100)	(26,667)	-
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	9,500	-	-	130,000	50,000	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	13,915	(695)	538	4,948	-	(1,316)	10,900	23,333	-
FUND BALANCES (DEFICIT), JANUARY 1	73,147	3,399	2,696	2,407	11,107	4,358	10,000	101,969	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 87,062	\$ 2,704	\$ 3,234	\$ 7,355	\$ 11,107	\$ 3,042	\$ 20,900	\$ 125,302	\$ -

County of Mackinac, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2006

	Special Revenue Funds			Debt Service Funds		
	Veteran's Trust	Substance Abuse	Plat Book	Circuit Court Victim's Restitution	Courthouse Debt Service	Totals
REVENUES:						
Federal Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 627,665
State Grants	3,261	56,362	-	-	-	446,072
Local Contributions	-	-	-	-	-	18,500
Charges for Services	-	-	1,578	-	-	251,481
Fines & Forfeits	-	-	-	4,295	-	9,040
Interest & Rentals	-	-	-	-	-	17,267
Other Revenues	-	-	-	-	-	5,121
TOTAL REVENUES	3,261	56,362	1,578	4,295	-	1,375,146
EXPENDITURES:						
General Government	-	-	-	-	-	112,716
Judicial	-	-	-	2,747	-	10,445
Public Safety	-	-	-	-	-	463,779
Public Works	-	-	-	-	-	119,100
Health And Welfare	3,026	56,362	-	-	-	202,768
Debt Service	-	-	-	-	129,809	129,809
Capital Outlay	-	-	-	-	-	740,000
TOTAL EXPENDITURES	3,026	56,362	-	2,747	129,809	1,778,617
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	235	-	1,578	1,548	(129,809)	(403,471)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	-	-	-	-	129,809	319,309
Operating Transfers Out	-	-	(42,006)	-	-	(46,325)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	235	-	(40,428)	1,548	-	(130,487)
FUND BALANCES (DEFICIT), JANUARY 1	228	-	40,428	3,801	-	918,606
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 463	\$ -	\$ -	\$ 5,349	\$ -	\$ 788,119

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members of
The Board of Commissioners
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the County of Mackinac, Michigan's basic financial statements and have issued our report thereon, dated February 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mackinac County Road Commission and Mackinac County Housing Commission, discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mackinac County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Honorable Chairman and Members
of the Board of Commissioners
County of Mackinac, Michigan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of prior year audit findings to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of prior year audit findings as item 2004-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Mackinac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2006-1.

We noted certain matters that we reported to management the County of Mackinac, Michigan's in a separate letter dated February 21, 2007.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the County, and federal awarding agencies, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

February 21, 2007



ANDERSON, TACKMAN & COMPANY, PLC
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

Compliance

We have audited the compliance of the County of Mackinac, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Mackinac, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Honorable Chairman and Members
of the Board of Commissioners
County of Mackinac, Michigan

Internal Control Over Compliance

The management of the County of Mackinac, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Mackinac, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in a County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

February 21, 2007

County of Mackinac, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Award:			
Rural Development Sewer Grant	10.760	-	\$ 12,600
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:			
Direct Awards:			
Low Rent Public Housing	14.850	-	76,730
Capital Fund	14.872	-	122,113
Subtotal Direct Awards			198,843
Pass-through programs from the Michigan State Housing Development Authority			
Pass-through programs from CLMA: Community Action Agency	14.228	MSC 2005 742 HOA	34,962
Total U.S. Department of Housing & Urban Development			233,805
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from the Michigan Family Department of Human Services:			
Juvenile Accountability Incentive Block Grant	16.523	JABGN-06-49001	5,076
Juvenile Accountability Incentive Block Grant	16.523	JABGN-07-49001	12,196
Total U.S. Department of Justice			17,272
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/0105 - 09/30/06	97.042	2386004867	12,289
2004 State Homeland Security Grant Program	97.004	2386004867	22,000
2004 Law Enforcement Terrorism Prevention Program	97.004	2386004867	280
2005 State Homeland Security Grant Program	97.067	2386004867	13,325
2005 Law Enforcement Terrorism Prevention Program	97.067	2386004867	4,300
State Homeland Security Grant Program - CI Grant	97.078	N/A	27,183
Marine Safety Equipment Grant	97.102	MI 2006 FED	10,000
Total U.S. Department of Homeland Security			89,377
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs for the Michigan Department of Transportation:			
Airport Project	20.106	2006-0312	592,000
Road Projects - State Administered	20.205	N/A	480,193
Total pass-through MDOT			1,072,193
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
HEMP Grant 2005 - 2006	20.503	2386004867	703
Total U.S. Department of Transportation			1,072,896
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs for the Michigan Department of Human Services:			
Friend of Court Federal Incentive	93.563	FIP20051	13,871
PA CRP Title IV-D - 10/1/05 to 9/30/06	93.563	CS/PA-06-49002	51,082
PA CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/PA-07-49002	13,363
FOC CRP Title IV-D - 10/1/05 to 9/30/06	93.563	CS/FOC-06-49001-09	111,803
FOC CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/FOC-07-49001-01	41,178
Total U.S. Department of Health and Human Services			231,297
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,657,247

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Mackinac, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the County during 2006.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 1,016,666
Less: State Grants Classified as Federal	(51,055)
Federal Expenditures of	
Housing Commission	198,843
Department of Public Works	12,600
Road Commission	<u>480,193</u>
Total Federal Expenditures	<u>\$ 1,657,247</u>

NOTE D - FEDERAL GRANTS – ROAD COMMISSION:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$480,193 for contracted projects. Contracted projects are defined as projects performed by private contractors that are paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the Road Commission, as they are included in MDOT's single audit.

NOTE E - SUBRECIPIENT AWARDS

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to sub recipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant for 2005 Community Action Agency, Inc.	14.228	34,962
Rural Development – Sewer Grant Brevort Township	10.760	12,600

NOTE F – AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2006, the Federal aid received and expended by the Airport was \$592,000 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section II – Financial Statement Findings

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

93.563 97.004, 97.078, 97.067	Child Support Enforcement Homeland Security Grant Programs
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Significant Deficiencies – Non-Compliance**Excess Expenditures Over Appropriations*****Finding 06-1***

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2006 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Court House and Grounds	\$ 294,565	\$ 342,644	(47,779)
Juvenile Coordinator	16,073	16,462	(389)
Sheriff	484,577	492,520	(7,943)
Bois Blanc Deputy	42,180	43,640	(1,460)
Veterans Affairs	10,255	12,786	(2,531)
Housing Board	2,200	3,756	(1,556)
Economic Development	1,750	2,188	(438)
Other Health and Welfare	103,575	119,157	(15,582)
Insurance	230,923	265,885	(34,962)
Other	6,225	22,087	(15,862)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budget for the General Fund during the year.

Recommendation: We recommend that the County and personnel responsible for administering the activities of the various funds of the County, develop budgetary control procedures for the General Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response – Corrective Action Plan: Management has agree to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

Significant Deficiencies – Internal Control

Lack of Segregation of Duties Regarding Payroll System

Finding 05-1

Condition/Criteria: All Employees of Mackinac County are required to be paid via direct deposit. The only point of approval in the payroll system is when supervisors review and approve individual employee's time cards. These time cards are then submitted to the deputy clerk who inputs all data, determines the total payroll for that pay-period, creates the electronic transmittal, and submits it to the First National Bank (FNB).

Effect: There is no review or approval process concerning the amounts or destination accounts that are associated with the payroll check that is submitted to FNB at the end of each pay-period.

The deputy clerk inputs all data for pay, withholdings, and overtime etc., then creates and submits the direct deposit transfer to FNB.

The only person who reviews this data is the deputy clerk herself.

Cause: Small entity with limited staffing.

Recommendation: The department heads should perform reviews of payroll reports that relate to their office.

Management's Response – Corrective Action Plan: After discussing this process with the deputy clerk, she agreed that the system is vulnerable to mistakes and manipulation at certain points. She agreed that the following steps were both practicable and advisable:

- An Earnings and Deduction report should be submitted to each department head after every pay-period. This report would include data for the individual department.
- The aggregate totals of all of the Earnings and Deductions reports "net pay" would be agreed against the electronic money amount transmitted to FNB for direct deposit of payroll.
- The department head (or designee) would review the report. If the data contained in the report agreed with his/her payroll records, he/she would initial the report and return it to the County Clerk's office. This report would be kept on file at the Clerk's office.

Status: Corrected.

Section II – Financial Statement Findings (Continued)

Detailed Listing of Inmate Reimbursement Receivables

Finding 04-2

Condition/Criteria: The amount due for inmate housing is not recorded on the general ledger and there was no report available indicating what amounts are due. In addition, the same individual that is responsible for the accounts receivable ledger also collect payments, and adjusts accounts, etc.

Effect: A detailed listing of Inmate Reimbursement Receivables is not maintained.

Cause: Unknown.

Recommendation: Although we understand that most of these amounts are uncollectible, to increase controls the County should maintain a detailed listing of the amounts due, billings for the period, and collections. The Board should consider whether it is possible to have someone other than the individuals collecting payments, perform the billings and maintain the accounts receivable ledger.

Management's Response – Corrective Action Plan: A review will be performed by the sheriff of these amounts to determine collectibility. After the review is performed the detailed listing will be updated to correct the above finding.

Status: No change in 2005 or 2006.

Inmate Trust/Commissary Account Procedures

Finding 04-4

Condition/Criteria: For the year under audit, as in prior years, the inmate monies and the commissary revenues have been combined into one bank account. At the end of each month, a bank statement was then provided to the County Treasurer, and any net increase in the account was recorded as revenue and any decrease as expenses.

Effect: As a result, revenues and expenses for the commissary for the year ended December 31, 2004 are not reported correctly.

Cause: Unknown.

Recommendation: We understand that it is not practical to separate the accounts; however, we recommend the following changes be made:

- No amounts should be paid out of this account other than refunds of inmate trust balances when they are discharged. During our audit, we noted that cable bills, commissary supplies, equipment, etc., were purchased directly from this account. All payments to vendors should go through the normal accounts payable process with the County Clerk.

Section II – Financial Statement Findings (Continued)

- The amount of inmate monies held in this account should be recorded as a liability. Then, at the end of the month a bank statement, summary of inmate balances, and the amount of commissary items purchased by the inmates during the month should be provided to the County Treasurer to make the necessary entries to the general ledger.
- The bank account should be reconciled on a monthly basis by someone other than the individual(s) responsible for writing checks.

Management's Response – Corrective Action Plan: Management will strive to implement the procedures recommended.

Status: Our audit revealed that management has followed this recommendation and made the required changes. We consider this finding corrected.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Mackinac County
Board of Commissioners
100 S. Marley Street
St. Ignace, MI 49781

We have audited the financial statements of the County of Mackinac, Michigan for the year ended December 31, 2006, and have issued our reports thereon dated February 21, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Mackinac's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Mackinac's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Mackinac's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Mackinac's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Mackinac's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Mackinac are described in Note 1. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Mackinac during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Mackinac's financial reporting process (this is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Mackinac, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Mackinac's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Mackinac or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Restitution Payable Report (Prior Year)

During our audit procedures we were unable to reconcile the Restitution Payable report maintained by the Circuit Court's office to the balance in the Trust & Agency Fund. We recommend that the report be balanced to the general ledger on a monthly basis.

SEC Rule 15C2-12 Disclosure Requirements (Prior Year)

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. With the issuance of the bonds for the sewer system, the County is subject to these reporting requirements. We recommend that the County establish a written plan and process to ensure that this report is completed and filed by June 30th of each year.

Prepaid Expenditures (Prior Year)

Currently, there are prepaid expenditures that are not recorded on the general ledger at year end. To provide the most accurate financial information, prepaid expenditures for insurance should be recorded at year end.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Mackinac required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2009, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Interest Receivable – Delinquent Tax Fund

Because the Delinquent Tax Fund is on the full accrual method of accounting, an interest receivable should be accrued for the 2005 and 2004 tax collections.

Personal Property Taxes

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

New Bank Account Approval

In the fiscal year 2006, the County opened two new bank accounts. In order to strengthen internal controls, bank accounts should be approved by the Board. After reviewing the Board minutes, it does not appear that these bank accounts were properly approved. We recommend that any new bank accounts are first approved by the Board before they are opened.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

February 21, 2007